

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	



City of Howell, Michigan

Financial Report with Supplemental Information June 30, 2006



City of Howell

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Independent Auditor's Report

To the City Council
City of Howell, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Howell as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Howell's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Howell as of June 30, 2006 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the major funds' budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements, but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the City Council
City of Howell, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Howell's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

September 6, 2006

City of Howell

Management's Discussion and Analysis

The following discussion and analysis of the City of Howell's annual financial report presents our view of the City's financial performance during the fiscal year ended June 30, 2006. Please read it in conjunction with the City's basic financial statements, which follow beginning on page 14.

Financial Highlights

- The City's total net assets increased as a result of the fiscal year's operations. The net assets of our business-type activities increased by \$13,000, or .05 percent, and net assets of our governmental activities increased by \$414,000, or 2.1 percent.
- During the year, the City had revenues that were \$427,000 more than the \$13 million in expenses.
- In the City's business-type activities, revenues were \$3.82 million while expenses were \$3.82 million.
- Total costs of all the City's programs were \$13 million.
- The General Fund reported a decrease for the year of \$400,000 which included a one time charge of \$382,000 which consisted of a tax tribunal settlement.
- The resources available for appropriation were \$68,000 less than budgeted in the General Fund. Expenditures were \$549,000 less than budgeted.

Overview of the Financial Statements

This annual report consists of the following report sections: management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an optional section that presents combining statements for non-major governmental funds and internal service funds. The basic financial statements are presented in two different formats: government-wide financial statements and fund financial statements.

- The government-wide financial statements include the statement of net assets (deficit) and the statement of activities. These statements provide both long-term and short-term information about the City's overall financial status.
- The fund financial statements include the balance sheet and the statement of revenue, expenditures, and changes in fund balances. These statements focus on individual parts of the City government and report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

City of Howell

Management's Discussion and Analysis (Continued)

Overview of the Financial Statements (Continued)

- The governmental fund statements tell how general government services, like public safety, were financed in the short-term as well as what remains for future spending.
- The proprietary fund statements present short- and long-term financial information about those activities that the City operates in a business-like manner, such as the water and sewer system.
- The fiduciary fund statements provide information about the financial relationships in which the City acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

The basic financial statements also include notes that explain some of the information in the basic financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information presented in the basic financial statements. In addition to these required supplementary schedules, we have provided a section with combining statements that provide details about our non-major governmental and internal service funds.

Government-wide Statements

The City's government-wide statements begin on page 14 of this report. These statements report information about the City as a whole under the accrual method of accounting, which is similar to the accounting used by most private-sector companies. The statement of net assets includes all, both current and long-term, of the government's assets and liabilities and the statement of activities includes all of the current year's revenues and expenses regardless of when cash is received or paid.

The combined objective of the government-wide statements is to report the City's net assets and how they have changed. The reporting of net assets is one way to measure the City's financial health or position.

- Over time, increases or decreases in the City's net assets can be viewed as indicators of whether its financial health is improving or deteriorating, respectively.
- In addition to the financial factors, you will need to consider additional information such as changes in the City's property tax base and the condition of the City's roads to assess the overall health.

City of Howell

Management's Discussion and Analysis (Continued)

Government-wide Statements (Continued)

The City's government-wide financial statements divide the reported information into three categories:

- Governmental activities - Most of the City's basic services are included here, such as police, public works, recreation, and general information. Property taxes and state and federal grants are used to finance most of these activities.
- Business-type activities - The City charges fees to customers to help it cover the costs of certain services it provides. The City's water and sewer system are included in this category.
- Component units - The City includes other legal entities in its report such as the Downtown Development Authority, TIFA, and Brownfield Redevelopment. The City is financially accountable for these "component units" although they are legally separate entities.

Fund Financial Statements

The City's fund financial statements begin on page 17 of this report. These statements provide more detailed information about the City's most significant funds. The City uses funds to account for specific sources of funding and spending for particular purposes. Some funds are required by state law and by bond covenants and others are established by City Council to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has three kinds of funds that use different accounting approaches:

- Governmental funds - Most of the City's basic services are included in governmental funds. These funds focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. These funds are reported using the modified accrual accounting method that measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because governmental fund information has a short-term focus and the government-wide statement incorporates long-term information, we describe the relationship (or differences) between government activities and governmental funds in a reconciliation at the bottom of the fund financial statements.

Fund Financial Statements (Continued)

- Proprietary funds - When the City charges customers fees for the services it provides, the fees are generally reported in proprietary funds. Similar to the reporting method used on the government-wide statements, proprietary funds provide both long- and short-term financial information.
 - In fact, the City's enterprise funds (water and sewer) are the same as its business-type activities, but provide more detail and additional information.
 - We use internal service funds (the other type of proprietary fund) to report activities that provide services and supplies for the City's other programs and activities. The City currently uses two internal service funds, Department of Public Service and Equipment Pool.
- Fiduciary funds - The City is the trustee, or fiduciary, for its retired employee health insurance plan. It is also responsible for other assets that, because of a trust arrangement, can be used for the trust beneficiaries. The City is responsible for ensuring that the assets reported in these funds are used for their intended purpose. A separate statement of fiduciary net assets and a statement of changes in fiduciary net assets are presented on pages 23 and 24 of this report. These activities are excluded from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

City of Howell

Management's Discussion and Analysis (Continued)

Financial Analysis of the City as a Whole

The City's combined net assets were increased from a year ago from \$48.8 million to \$49.2 million. The following table illustrates the varying results of the governmental activities and business-type activities which combine to capture the City's total net assets.

Table I

	Governmental Activities	Governmental Activities	Business-type Activities	Business-type Activities	Total Primary Government	Total Primary Government
	2006	2005	2006	2005	2006	2005
Current assets	\$ 7,167,769	\$ 8,947,884	\$ 5,114,707	\$ 4,912,908	\$ 12,282,476	\$ 13,860,792
Noncurrent assets	<u>17,261,260</u>	<u>15,693,802</u>	<u>25,624,372</u>	<u>26,029,916</u>	<u>42,885,632</u>	<u>41,723,718</u>
Total assets	24,429,029	24,641,686	30,739,079	30,942,824	55,168,108	55,584,510
Long-term liabilities	2,935,000	3,850,000	1,009,210	1,458,814	3,944,210	5,308,814
Current liabilities	<u>1,611,580</u>	<u>1,322,815</u>	<u>412,463</u>	<u>180,109</u>	<u>2,024,043</u>	<u>1,502,924</u>
Total liabilities	<u>4,546,580</u>	<u>5,172,815</u>	<u>1,421,673</u>	<u>1,638,923</u>	<u>5,968,253</u>	<u>6,811,738</u>
Net assets:						
Invested in capital assets -						
Net of related debt	13,459,142	11,436,684	24,387,860	24,571,102	37,847,002	36,007,786
Restricted	2,336,832	2,219,967	2,748,951	2,552,513	5,085,783	4,772,480
Unrestricted	<u>4,086,475</u>	<u>5,812,220</u>	<u>2,180,595</u>	<u>2,180,286</u>	<u>6,267,070</u>	<u>7,992,506</u>
Total net assets	<u>\$ 19,882,449</u>	<u>\$ 19,468,871</u>	<u>\$ 29,317,406</u>	<u>\$ 29,303,901</u>	<u>\$ 49,199,855</u>	<u>\$ 48,772,772</u>

Net assets of the City's governmental activities increased by 2.1 percent to \$19.9 million. Investments in capital assets, net of related debt, increased by 17.7 percent to \$13.5 million. This increase is due mainly to the capitalization of infrastructure contributions and additional investment in the infrastructure of the City.

Unrestricted net assets, or the portion of net assets used to finance day-to-day operations, without constraints established by debt covenants, enabling legislation, or other legal requirements decreased by 29.7 percent or \$1.7 million. The primary reasons for the decrease in unrestricted net assets are the one time charge of \$382,000 to settle a tax tribunal case and increased transfers to various capital project funds to invest in the infrastructure of the City. Restricted net assets increased by 5.2 percent or \$117,000 mainly due to the increased investment in infrastructure.

City of Howell

Management's Discussion and Analysis (Continued)

Financial Analysis of the City as a Whole (Continued)

The net assets of our business-type activities increased by .05 percent during the fiscal year. This increase is due to revenues exceeding expenses and continued investment in infrastructure (water and sewer mains) without additional debt being incurred.

The following table displays the City's changes in net assets.

Table 2

	Governmental Activities	Governmental Activities	Business-type Activities	Business-type Activities	Total Primary Government	Total Primary Government
	2006	2005	2006	2005	2006	2005
Revenue						
Program revenue:						
Charges for services	\$ 1,015,502	\$ 1,099,916	\$ 3,141,911	\$ 3,157,392	\$ 4,157,413	\$ 4,257,308
Operating grants and contributions	831,575	901,754	-	-	831,575	901,754
Capital grants and contributions	1,331,436	179,655	612,406	959,616	1,943,842	1,139,271
General revenue:						
Property taxes	5,048,896	5,042,691	-	-	5,048,896	5,042,691
State-shared revenue	860,697	867,744	-	-	860,697	867,744
Other	296,899	303,851	7,552	18,394	304,451	322,245
Investment earnings	183,198	127,135	69,996	45,977	253,194	173,112
Total revenue	9,568,203	8,522,746	3,831,865	4,181,379	13,400,068	12,704,125
Program Expenses						
General government	2,448,448	2,069,478	-	-	2,448,448	2,069,478
Public safety	2,498,502	2,504,009	-	-	2,498,502	2,504,009
Public works	2,670,948	2,758,986	-	-	2,670,948	2,758,986
Community and economic development	221,693	273,059	-	-	221,693	273,059
Recreation and culture	1,203,894	1,195,748	-	-	1,203,894	1,195,748
Interest on long-term debt	175,081	127,312	-	-	175,081	127,312
Water	-	-	1,663,102	1,679,472	1,663,102	1,679,472
Sewer	-	-	2,091,317	1,985,496	2,091,317	1,985,496
Total program expenses	9,218,566	8,928,592	3,754,419	3,664,968	12,972,985	12,593,560
Excess before transfers	349,637	(405,846)	77,446	516,411	427,083	110,565
Transfers	63,941	62,852	(63,941)	(62,852)	-	-
Change in Net Assets	\$ 413,578	\$ (342,994)	\$ 13,505	\$ 453,559	\$ 427,083	\$ 110,565

City of Howell

Management's Discussion and Analysis (Continued)

Financial Analysis of the City as a Whole (Continued)

The City's total net assets increased by .88 percent or \$427,000 over the fiscal year.

Governmental Activities

Table 3 presents the cost of each of the City's four largest programs: public safety, public works, community and economic development, and recreation and culture. The table also presents each program's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost shows the financial burden that was placed on the City's taxpayers by each of these functions.

Table 3

	Total Cost of Services 2006	Total Cost of Services 2005	Net Cost of Services 2006	Net Cost of Services 2005
Public safety	\$ 2,498,502	\$ 2,504,009	\$ 2,209,771	\$ 2,102,610
Public works	2,670,948	2,758,986	746,478	1,867,656
Community and economic development	221,693	273,059	80,666	232,666
Recreation and culture	1,203,894	1,195,748	703,466	651,126
All others	2,623,529	2,196,790	2,299,672	1,893,209
Total	<u><u>\$ 9,218,566</u></u>	<u><u>\$ 8,928,592</u></u>	<u><u>\$ 6,040,053</u></u>	<u><u>\$ 6,747,267</u></u>

- The cost of all governmental activities this year was \$9.2 million.
- The amount that City taxpayers paid for these activities through City taxes was only \$5.0 million.
- Some of the cost was paid by the beneficiaries of the program's activities (\$1.0 million), or by other governments and organizations that subsidized certain programs with grants and contributions (\$832,000).and capital contributions of infrastructure. (\$1.3 million)
- The City paid for the \$6.0 million "public benefit" portion with \$5.0 million in taxes and with other revenues.

City of Howell

Management's Discussion and Analysis (Continued)

Business-type Activities

Operating revenues of the City's business-type activities, water, and sewer stayed relatively stable (\$3.1 million for 2006 and \$3.2 million for 2005) and operating expenses also remained relatively stable. The City experienced change in net assets of \$13,000 in its water and sewer operations. Factors contributing to these results included:

- Capital contributions received due to the continued growth of the system without expending additional resources, diligence in the area of expenditure control, and implementing additional operating efficiencies.

The City's Funds

As the City completed the year, its governmental funds (see the balance sheet presented on page 17) reported a combined fund balance of \$4.9 million, or \$1.5 million below last year. Included in this year's total change in fund balance is a decrease of \$400,000 in the City's General Fund. The primary reasons for the General Fund's use of fund balance include the following:

- Settlement of a tax tribunal case in the amount of \$382,000.
- Additional investment in the capital projects for Clinton Street, Parker Skate Park, and the M-59 Boardwalk of \$496,000.

General Fund Budgetary Highlights

Over the course of the year, the City Council revised the City budget several times. The first amendments were adopted in conjunction with the fiscal year 2005-2006 budget. These appropriations were to adjust the original budget when departments submitted estimated year-end figures that exceeded current budgeted amounts. The second amendments adopted allowed for appropriations to prevent budget overruns.

Even with these adjustments, actual expenditures were \$0.5 million below final budget amounts. The most significant positive variances resulted from lower than anticipated transfers to the Recreational Fund, Local Street, Rubbish and Garbage, and the D-19 Capital Project.

City of Howell

Management's Discussion and Analysis (Continued)

Capital Asset and Debt Administration

At the end of the 2006 fiscal year, the City had invested approximately \$42 million in a broad range of capital assets, including police equipment, buildings and improvements, computer equipment and software, parks and recreational facilities, roads, and water and sewer lines (see Table 4 below).

Table 4

	Governmental Activities	Governmental Activities	Business-type Activities	Business-type Activities	Total Primary Government	Total Primary Government
	2006	2005	2006	2005	2006	2005
Land	\$ 1,035,214	\$ 1,035,214	\$ 430,064	\$ 430,064	\$ 1,465,278	\$ 1,465,278
Land improvements	1,708,623	1,606,883	-	-	1,708,623	1,606,883
Buildings and improvements	6,435,668	6,334,133	23,613,021	23,486,020	30,048,689	29,820,153
Furniture and equipment	4,213,699	3,824,471	1,169,937	1,146,356	5,383,636	4,970,827
Construction in progress	1,318,557	1,103,401	561,379	761,833	1,879,936	1,865,234
Infrastructure:						
Roads and sidewalks	15,565,063	13,403,166	-	-	15,565,063	13,403,166
Water systems	-	-	4,877,754	4,495,796	4,877,754	4,495,796
Sewer systems	-	-	5,483,268	5,387,996	5,483,268	5,387,996
Subtotal assets	30,276,824	27,307,268	36,135,423	35,708,065	66,412,247	63,015,333
Accumulated depreciation	13,422,682	12,020,584	10,511,051	9,678,149	23,933,733	21,698,733
Net capital assets	\$ 16,854,142	\$ 15,286,684	\$ 25,624,372	\$ 26,029,916	\$ 42,478,514	\$ 41,316,600

The year's major additions to capital assets included:

- Preliminary construction of Clinton Street - \$276,000
- Construction in progress for Loop Road - \$414,000
- Capital Contribution of Infrastructure - \$1.1 million
- Completion of the Parker Skate Park - \$260,000
- Equipment pool vehicles - \$160,000
- Completion of the Isbell Street improvements including water and sewer lines - \$873,000

City of Howell

Management's Discussion and Analysis (Continued)

Debt

At year end the City had \$3.4 million in bonds and notes outstanding. This represents a \$455,000 decrease from the previous year (see Table 5 below). More detailed information about the City's long-term liabilities is presented in Note 7 to the basic financial statements.

The City of Howell maintains a non-insured rating of A with Standard & Poor's.

State statutes limit the amount of general obligation debt a City may issue to 10 percent of its total assessed valuation. The debt limit for the City is \$46,804,365 which is significantly in excess of the City's total net debt.

Table 5

	Governmental Activities	Governmental Activities	Business-type Activities	Business-type Activities	Total Primary Government	Total Primary Government
	2006	2005	2006	2005	2006	2005
General obligations and special assessments	\$ 3,395,000	\$ 3,850,000	\$ -	\$ -	\$ 3,395,000	\$ 3,850,000
Revenue bonds	-	-	1,236,512	1,458,814	1,236,512	1,458,814
Total	<u>\$ 3,395,000</u>	<u>\$ 3,850,000</u>	<u>\$ 1,236,512</u>	<u>\$ 1,458,814</u>	<u>\$ 4,631,512</u>	<u>\$ 5,308,814</u>

Economic Factors and Next Year's Budget and Rates

The City's budget for the 2007 fiscal year is balanced with no property tax rate increase. Estimated property tax revenues are expected to increase by approximately \$367,000 from the prior year due mainly to added tax base from new development. The failure of the Parks & Recreation Authority millage during August 2006 will impact fees and services. The total impact this will have is now under review. The current fee structure of the Water and Sewer operations will be analyzed in order to more fully cover current operating costs. The City is continuing its Loop Road Project in order to provide a roadway to assist in growth of the downtown area and residential development.

Total expenses in the General Fund for the 2007 fiscal year are estimated to be \$7.2 million. Included in those costs are the General Fund's contributions to the rubbish and garbage collection program (\$462,000) and the recreation program (\$591,000). As stated earlier, the City is currently reviewing its total funding of the recreation program.

City of Howell

Management's Discussion and Analysis (Continued)

Contacting the City's Financial Management

This financial report is intended to provide citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the Deputy City Manager – Finance office at the City of Howell, 611 E. Grand River Avenue, Howell, Michigan, 48843.

City of Howell

Statement of Net Assets (Deficit) June 30, 2006

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments (Note 3)	\$ 5,595,480	\$ 1,842,690	\$ 7,438,170	\$ 609,862
Receivables (Note 4):				
Taxes	24,743	-	24,743	-
Special assessments	402,419	-	402,419	-
Accounts	59,737	375,668	435,405	-
Mortgage notes	-	-	-	4,997
Inventories	-	124,734	124,734	-
Internal balances	19,215	(19,215)	-	-
Due from other governmental units	454,173	11,137	465,310	-
Prepaid costs and other assets	155,505	24,672	180,177	3,359
Land held for sale	456,497	-	456,497	-
Restricted assets (Note 8):				
Customer deposits	-	6,070	6,070	-
Bond reserve	-	359,192	359,192	-
Replacement and improvement account	-	2,389,759	2,389,759	-
Total restricted assets	-	2,755,021	2,755,021	-
Investment in joint venture (Note 14)	407,118	-	407,118	-
Capital assets - Net (Note 5)	16,854,142	25,624,372	42,478,514	262,907
Total assets	24,429,029	30,739,079	55,168,108	881,125
Liabilities				
Accounts payable	633,694	100,116	733,810	11,986
Accrued and other liabilities	400,589	85,045	485,634	11,277
Due to other governmental units	117,297	-	117,297	305,832
Noncurrent liabilities (Note 7):				
Due within one year	460,000	227,302	687,302	143,652
Due in more than one year	2,935,000	1,009,210	3,944,210	545,000
Total liabilities	4,546,580	1,421,673	5,968,253	1,017,747
Net Assets (Deficit)				
Invested in capital assets - Net of related debt	13,459,142	24,387,860	37,847,002	254,255
Restricted:				
Bond reserve	-	359,192	359,192	-
Replacement and improvement	-	2,389,759	2,389,759	-
Streets	237,934	-	237,934	-
Capital improvements	672,659	-	672,659	-
Debt service	907,382	-	907,382	-
Law enforcement	12,264	-	12,264	-
Cemetery	505,330	-	505,330	-
Other purposes	1,263	-	1,263	-
Unrestricted (deficit)	4,086,475	2,180,595	6,267,070	(390,877)
Total net assets (deficit)	\$ 19,882,449	\$ 29,317,406	\$ 49,199,855	\$ (136,622)

City of Howell

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 2,448,448	\$ 323,857	\$ -	\$ -
Public safety	2,498,502	233,482	55,249	-
Public works	2,670,948	146,625	579,885	1,197,960
Community and economic development	221,693	7,551	-	133,476
Recreation and culture	1,203,894	303,987	196,441	-
Interest on long-term debt	175,081	-	-	-
Total governmental activities	9,218,566	1,015,502	831,575	1,331,436
Business-type activities - Water and sewer:				
Water Supply System	1,663,102	1,730,503	-	73,853
Sewage Disposal System	2,091,317	1,411,408	-	538,553
Total business-type activities	3,754,419	3,141,911	-	612,406
Total primary government	<u>\$ 12,972,985</u>	<u>\$ 4,157,413</u>	<u>\$ 831,575</u>	<u>\$ 1,943,842</u>
Component units:				
Downtown Development Authority	\$ 265,235	\$ -	\$ -	\$ 2,310
Tax Increment Financing Authority	316,043	-	-	-
Economic Development Corporation	250	-	-	-
Total component units	<u>\$ 581,528</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,310</u>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Franchise fees				
Miscellaneous				
Transfers				
Total general revenues and transfers				
Change in Net Assets				
Net Assets (Deficit) - Beginning of year				
Net Assets (Deficit) - End of year				

Statement of Activities
Year Ended June 30, 2006

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (2,124,591)	\$ -	\$ (2,124,591)	\$ -
(2,209,771)	-	(2,209,771)	-
(746,478)	-	(746,478)	-
(80,666)	-	(80,666)	-
(703,466)	-	(703,466)	-
(175,081)	-	(175,081)	-
(6,040,053)	-	(6,040,053)	-
-	141,254	141,254	-
-	(141,356)	(141,356)	-
-	(102)	(102)	-
(6,040,053)	(102)	(6,040,155)	-
-	-	-	(262,925)
-	-	-	(316,043)
-	-	-	(250)
-	-	-	(579,218)
5,048,896	-	5,048,896	799,685
860,697	-	860,697	-
183,198	69,996	253,194	10,039
102,457	-	102,457	-
194,442	7,552	201,994	14,748
63,941	(63,941)	-	-
6,453,631	13,607	6,467,238	824,472
413,578	13,505	427,083	245,254
19,468,871	29,303,901	48,772,772	(381,876)
\$ 19,882,449	\$ 29,317,406	\$ 49,199,855	\$ (136,622)

Governmental Funds Balance Sheet June 30, 2006

	Major Debt Service Funds			Special Revenue Fund			
	General	M-59 Utilities SAD Debt Retirement	1995 Special Assessment	Parks and Recreation	Other Nonmajor Governmental Funds	Total Governmental Funds	
Assets							
Cash and investments	\$ 2,382,491	\$ 127,120	\$ 377,843	\$ 4,215	\$ 1,637,232	\$ 4,528,901	
Receivables (Note 4):							
Taxes	24,743	-	-	-	-	24,743	
Special assessments	5,348	187,216	209,855	-	-	402,419	
Accounts	36,730	-	-	4,264	18,743	59,737	
Due from other funds (Note 6)	51,863	-	-	23,154	80,619	155,636	
Due from other governmental units	357,588	-	-	-	92,982	450,570	
Prepaid costs and other assets	125,343	-	-	9,021	14,352	148,716	
Land held for sale	-	-	-	-	456,497	456,497	
Total assets	<u>\$ 2,984,106</u>	<u>\$ 314,336</u>	<u>\$ 587,698</u>	<u>\$ 40,654</u>	<u>\$ 2,300,425</u>	<u>\$ 6,227,219</u>	
Liabilities and Fund Balances							
Liabilities							
Accounts payable	\$ 443,515	\$ -	\$ -	\$ 20,495	\$ 146,140	\$ 610,150	
Accrued and other liabilities	48,087	-	-	12,694	4,478	65,259	
Due to other funds	99,086	-	-	1,472	65,164	165,722	
Due to other governmental units	117,297	-	-	-	-	117,297	
Deferred revenue (Note 4)	5,348	187,216	209,855	-	-	402,419	
Total liabilities	713,333	187,216	209,855	34,661	215,782	1,360,847	
Fund Balances							
Reserved for:							
Debt service	-	127,120	377,843	-	-	504,963	
Law enforcement	5,103	-	-	-	7,161	12,264	
Prepaid expenses	125,343	-	-	-	-	125,343	
Land for sale	-	-	-	-	456,497	456,497	
Donations	1,263	-	-	-	-	1,263	
Cemetery	-	-	-	-	505,330	505,330	
Unreserved (major funds)	2,139,064	-	-	5,993	-	2,145,057	
Unreserved (nonmajor funds):							
Special Revenue Fund	-	-	-	-	442,996	442,996	
Capital Projects Fund	-	-	-	-	672,659	672,659	
Total fund balances	2,270,773	127,120	377,843	5,993	2,084,643	4,866,372	
Total liabilities and fund balances	<u>\$ 2,984,106</u>	<u>\$ 314,336</u>	<u>\$ 587,698</u>	<u>\$ 40,654</u>	<u>\$ 2,300,425</u>		

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	16,088,146
Investment in joint venture not reported in the funds	407,118
Special assessment and other receivables are expected to be collected over several years, and are not available to pay for current year expenditures	402,419
Accumulated employee paid time off is recorded when earned in the statement of activities	(260,265)
Long-term liabilities and accrued interest are not due and payable in the current period and are not reported in the funds	(3,432,728)
Internal Service Funds are included as part of governmental activities	1,811,387
Net assets of governmental activities	<u>\$ 19,882,449</u>

Governmental Funds

Statement of Revenue, Expenditures, and Changes in Fund Balances

Year Ended June 30, 2006

	Major Debt Service Funds			Special Revenue Fund		
	General	M-59 Utilities SAD Debt Retirement	1995 Special Assessment	Parks and Recreation	Nonmajor Governmental Funds	Total Governmental Funds
Revenue						
Property taxes	\$ 5,048,896	\$ -	\$ -	\$ -	\$ -	\$ 5,048,896
Special assessments	-	27,866	55,107	-	-	82,973
Licenses and permits	195,127	-	-	-	-	195,127
Federal sources	43,440	-	-	-	114,757	158,197
State and local sources	876,323	-	-	-	563,065	1,439,388
Charges for services	163,312	-	-	479,464	146,660	789,436
Fines and forfeitures	76,793	-	-	-	-	76,793
Interest income	45,159	13,881	16,592	-	55,937	131,569
Investment and rental income	225,009	694	7,972	34	-	233,709
Other revenue	246,479	-	-	30,112	96,581	373,172
Total revenue	6,920,538	42,441	79,671	509,610	977,000	8,529,260
Expenditures						
Current:						
General government	2,242,082	-	-	-	-	2,242,082
Public safety	2,544,557	-	-	-	4,746	2,549,303
Public works	402,223	-	-	-	1,336,565	1,738,788
Recreation and culture	155,952	-	-	966,155	-	1,122,107
Other expense	-	-	-	-	9,000	9,000
Capital outlay	92,282	-	-	66,503	1,710,226	1,869,011
Debt service:						
Principal retirement	-	35,000	145,000	-	275,000	455,000
Interest and fiscal charges	-	17,973	34,979	-	121,904	174,856
Total expenditures	5,437,096	52,973	179,979	1,032,658	3,457,441	10,160,147
Excess of Revenue Over (Under)						
Expenditures	1,483,442	(10,532)	(100,308)	(523,048)	(2,480,441)	(1,630,887)
Other Financing Sources (Uses)						
Transfers in (Note 6)	14,600	-	-	518,880	2,035,870	2,569,350
Transfers out (Note 6)	(1,898,025)	-	-	-	(607,384)	(2,505,409)
Total other financing sources (uses)	(1,883,425)	-	-	518,880	1,428,486	63,941
Net Change in Fund Balances	(399,983)	(10,532)	(100,308)	(4,168)	(1,051,955)	(1,566,946)
Fund Balances - Beginning of year	2,670,756	137,652	478,151	10,161	3,136,598	6,433,318
Fund Balances - End of year	\$ 2,270,773	\$ 127,120	\$ 377,843	\$ 5,993	\$ 2,084,643	\$ 4,866,372

City of Howell

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2006

Net Change in Fund Balances - Total governmental funds \$ (1,566,946)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Capital outlay	1,826,389
Depreciation	(1,252,080)
Capital contributions of infrastructure	1,082,491

Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end (159,354)

Repayment of bond principal and accrued interest is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 458,497

Changes in accumulated employee sick and vacation pay, as well as estimated general liability claims, are recorded when earned in the statement of activities (28,586)

Internal Service Funds are also included as governmental activities 53,167

Change in Net Assets of Governmental Activities \$ 413,578

Proprietary Funds Statement of Net Assets June 30, 2006

	Water Supply System	Sewage Disposal System	Total	Internal Service Funds
Assets				
Current assets:				
Cash and investments	\$ 1,361,018	\$ 481,672	\$ 1,842,690	\$ 1,066,579
Receivables (Note 4)	222,543	153,125	375,668	-
Due from other funds (Note 6)	1,762	-	1,762	29,301
Due from other governmental units	-	11,137	11,137	3,603
Inventories	124,734	-	124,734	-
Prepaid costs and other assets	12,446	12,226	24,672	6,789
Total current assets	1,722,503	658,160	2,380,663	1,106,272
Noncurrent assets:				
Restricted assets:				
Customer deposits	6,070	-	6,070	-
Bond reserve	359,192	-	359,192	-
Replacement and improvement account	58,018	2,331,741	2,389,759	-
Net capital assets	9,228,195	16,396,177	25,624,372	765,996
Total noncurrent assets	9,651,475	18,727,918	28,379,393	765,996
Total assets	11,373,978	19,386,078	30,760,056	1,872,268
Liabilities				
Current liabilities:				
Accounts payable	47,363	52,753	100,116	23,544
Accrued and other liabilities	45,463	39,582	85,045	37,337
Due to other funds	8,605	12,372	20,977	-
Current portion of long-term debt	227,302	-	227,302	-
Total current liabilities	328,733	104,707	433,440	60,881
Noncurrent liabilities - Long-term debt - Net of current portion	1,009,210	-	1,009,210	-
Total liabilities	1,337,943	104,707	1,442,650	60,881
Net Assets				
Investment in capital assets - Net of related debt	7,991,683	16,396,177	24,387,860	765,996
Restricted:				
Bond reserve	359,192	-	359,192	-
Replacement and improvement	58,018	2,331,741	2,389,759	-
Unrestricted	1,627,142	553,453	2,180,595	1,045,391
Total net assets	<u>\$ 10,036,035</u>	<u>\$ 19,281,371</u>	<u>\$ 29,317,406</u>	<u>\$ 1,811,387</u>

City of Howell

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2006

	Business-type Activities			Governmental Activities
	Water Supply System	Sewage Disposal System	Total	Internal Service Funds
Operating Revenue				
Charges for services	\$ 1,730,503	\$ 1,350,692	\$ 3,081,195	\$ 814,653
Miscellaneous	7,552	60,716	68,268	12,449
Total operating revenue	1,738,055	1,411,408	3,149,463	827,102
Operating Expenses				
Payroll	532,421	565,955	1,098,376	186,127
Fringe benefits	236,730	78,326	315,056	94,014
Operating supplies	150,164	198,294	348,458	126,505
Professional services	46,578	306,718	353,296	6,584
Communications	7,700	7,132	14,832	4,869
Insurance	23,951	41,225	65,176	50,032
Public utilities	141,802	148,407	290,209	14,739
Plant and equipment maintenance	56,020	55,645	111,665	21,550
Equipment rental	59,708	62,043	121,751	14,274
Depreciation	274,296	558,607	832,903	234,439
Miscellaneous	8,544	18,113	26,657	572
Overhead	51,515	50,852	102,367	45,990
Other expenses	-	-	-	846
Total operating expenses	1,589,429	2,091,317	3,680,746	800,541
Operating Income (Loss)	148,626	(679,909)	(531,283)	26,561
Nonoperating Revenue (Expenses)				
Interest income	32,653	37,343	69,996	21,514
Sale of vehicles and equipment	-	-	-	5,092
Interest and fiscal charges	(73,673)	-	(73,673)	-
Total nonoperating revenue (expenses)	(41,020)	37,343	(3,677)	26,606
Income (Loss) - Before operating transfers	107,606	(642,566)	(534,960)	53,167
Other Financing Uses - Transfers (Note 6)	(53,572)	(10,369)	(63,941)	-
Net Income (Loss) - Before capital contributions	54,034	(652,935)	(598,901)	53,167
Capital Contributions	73,853	538,553	612,406	-
Change in Net Assets	127,887	(114,382)	13,505	53,167
Net Assets - Beginning of year	9,908,148	19,395,753	29,303,901	1,758,220
Net Assets - End of year	<u>\$ 10,036,035</u>	<u>\$ 19,281,371</u>	<u>\$ 29,317,406</u>	<u>\$ 1,811,387</u>

The Notes to Financial Statements are an
Integral Part of this Statement.

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2006

	Business-type Activities			Governmental Activities
	Water Supply System	Sewage Disposal System	Total	Internal Service Funds
Cash Flows from Operating Activities				
Receipts from customers	\$ 1,756,906	\$ 1,441,029	\$ 3,197,935	\$ -
Receipts from other funds	-	-	-	826,715
Payments to suppliers	(453,529)	(861,498)	(1,315,027)	(217,279)
Payments to employees	(769,151)	(644,281)	(1,413,432)	(280,141)
Internal activity - Payments (to) from other funds	(227,658)	(84,346)	(312,004)	29,831
Net cash provided by (used in) operating activities	306,568	(149,096)	157,472	359,126
Cash Flows from Noncapital Financing Activities -				
Operating transfers to/from other funds	(53,572)	(10,369)	(63,941)	-
Cash Flows from Capital and Related Financing Activities				
Capital charges and connection fees	73,853	538,553	612,406	-
Purchase of capital assets	(255,653)	(171,706)	(427,359)	(160,460)
Proceeds from sale of capital assets	-	-	-	20,455
Principal and interest paid on capital debt	(295,975)	-	(295,975)	-
Net cash provided by (used in) capital and related financing activities	(477,775)	366,847	(110,928)	(140,005)
Cash Flows from Investing Activities				
Interest received on investments	32,653	37,343	69,996	21,514
Purchase of investment securities	(11,393)	444,329	432,936	658,085
Net cash provided by investing activities	21,260	481,672	502,932	679,599
Net (Decrease) Increase in Cash and Cash Equivalents	(203,519)	689,054	485,535	898,720
Cash and Cash Equivalents - Beginning of year	1,628,625	2,124,359	3,752,984	167,859
Cash and Cash Equivalents - End of year	<u>\$ 1,425,106</u>	<u>\$ 2,813,413</u>	<u>\$ 4,238,519</u>	<u>\$ 1,066,579</u>
Balance Sheet Classification of Cash and Cash Equivalents				
Cash and investments	\$ 1,361,018	\$ 481,672	\$ 1,842,690	\$ 1,066,579
Restricted cash and investments (Note 3)	423,280	2,331,741	2,755,021	-
Less amounts classified as investments (Note 3)	(359,192)	-	(359,192)	-
Total cash and cash equivalents	<u>\$ 1,425,106</u>	<u>\$ 2,813,413</u>	<u>\$ 4,238,519</u>	<u>\$ 1,066,579</u>
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities				
Operating income (loss)	\$ 148,626	\$ (679,909)	\$ (531,283)	\$ 26,561
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation and amortization	274,296	558,607	832,903	234,439
Changes in assets and liabilities:				
Receivables	18,851	40,758	59,609	1,506
Other assets	13,404	(14,338)	(934)	71,702
Accounts payable	18,707	(467)	18,240	15,207
Accrued and other liabilities	(167,316)	(53,747)	(221,063)	9,711
Net cash provided by (used in) operating activities	<u>\$ 306,568</u>	<u>\$ (149,096)</u>	<u>\$ 157,472</u>	<u>\$ 359,126</u>

There were no significant noncash financing or investing activities.

City of Howell

Fiduciary Funds Statement of Net Assets June 30, 2006

	Pension and Other Employee Benefits - Employee Healthcare Fund	Current Tax Fund
Assets - Cash and investments (Note 3)	\$ 158,849	<u>\$ 52,032</u>
Liabilities		
Accounts payable	-	\$ 49,576
Due to other governmental units	-	<u>2,456</u>
Total liabilities	-	<u>\$ 52,032</u>
Net Assets - Held in trust for retiree healthcare	<u>\$ 158,849</u>	

City of Howell

Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2006

	Pension and Other Employee Benefits - Employee Healthcare Fund
Additions - Investment income - Interest and dividends	<u>\$ 6,274</u>
Net Increase	6,274
Net Assets Held in Trust for Retiree Healthcare	
Beginning of year	<u>152,575</u>
End of year	<u><u>\$ 158,849</u></u>

City of Howell

Component Units Statement of Net Assets (Deficit) June 30, 2006

	Downtown Development Authority	Tax Increment Financing Authority	Economic Development Corporation	Brownfield Redevelopment Authority	Total
Assets					
Cash and investments (Note 3)	\$ 428,132	\$ 181,730	\$ -	\$ -	\$ 609,862
Mortgage notes receivable	4,997	-	-	-	4,997
Prepays	3,359	-	-	-	3,359
Net capital assets	<u>262,907</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>262,907</u>
Total assets	699,395	181,730	-	-	881,125
Liabilities					
Accounts payable	11,975	11	-	-	11,986
Due to other governmental units	377	102,986	-	202,469	305,832
Accrued and other liabilities	9,213	2,064	-	-	11,277
Noncurrent liabilities:					
Due within one year	83,652	60,000	-	-	143,652
Due in more than one year	<u>410,000</u>	<u>135,000</u>	<u>-</u>	<u>-</u>	<u>545,000</u>
Total liabilities	<u>515,217</u>	<u>300,061</u>	<u>-</u>	<u>202,469</u>	<u>1,017,747</u>
Net Assets (Deficit)					
Investment in capital assets -					
Net of related debt	254,255	-	-	-	254,255
Unrestricted (deficit)	<u>(70,077)</u>	<u>(118,331)</u>	<u>-</u>	<u>(202,469)</u>	<u>(390,877)</u>
Total net assets (deficit)	<u>\$ 184,178</u>	<u>\$ (118,331)</u>	<u>\$ -</u>	<u>\$ (202,469)</u>	<u>\$ (136,622)</u>

City of Howell

		Program Revenues		
	Expenses	Charges for Services	Operating Grants/ Contributions	Capital Grants/ Contributions
Downtown Development Authority	\$ 265,235	\$ -	\$ -	\$ 2,310
Tax Increment Financing Authority	316,043	-	-	-
Economic Development Corporation	250	-	-	-
Brownfield Redevelopment Authority	-	-	-	-
Total governmental activities	<u>\$ 581,528</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,310</u>

General revenues:

Property taxes

Interest

Miscellaneous

Total general revenues

Change in Net Assets (Deficit)

Net Assets (Deficit) - Beginning of year

Net Assets (Deficit) - End of year

**Component Units
Statement of Activities
Year Ended June 30, 2006**

Net (Expense) Revenue and Changes in Net Assets				
Downtown Development Authority	Tax Increment Financing Authority	Economic Development Corporation	Brownfield Redevelopment Authority	Total
\$ (262,925)	\$ -	\$ -	\$ -	\$ (262,925)
-	(316,043)	-	-	(316,043)
-	-	(250)	-	(250)
-	-	-	-	-
(262,925)	(316,043)	(250)	-	(579,218)
424,685	375,000	-	-	799,685
8,360	1,679	-	-	10,039
14,748	-	-	-	14,748
447,793	376,679	-	-	824,472
184,868	60,636	(250)	-	245,254
(690)	(178,967)	250	(202,469)	(381,876)
\$ 184,178	\$ (118,331)	\$ -	\$ (202,469)	\$ (136,622)

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Howell (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Howell:

Reporting Entity

The City of Howell is governed by an elected seven-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

Blended Component Units - The Building Authority is governed by a board that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to acquire, finance, and construct the City's public buildings.

Discretely Presented Component Units - The following component units are reported within the component units column in the statement of net assets (deficit). They are reported in a separate column to emphasize that they are legally separate from the City. Separate financial statements for the component units are not available.

The Downtown Development Authority (DDA) was established for the purpose of revitalizing the downtown business district. The DDA's governing body, which consists of nine individuals, is appointed by the City's mayor, with the approval of the City Council. In addition, the DDA's budget is subject to approval by the City Council. The DDA may issue debt payable solely from tax increment revenues. The full faith and credit of the City may be given for the debt of the DDA.

The Tax Increment Financing Authority (TIFA) was established for the purpose of funding the infrastructure of the City's industrial park as an incentive to bring manufacturers into the City. The TIFA's governing body, which consists of nine individuals, is appointed by the City's mayor with the approval of the City Council.

Note I - Summary of Significant Accounting Policies (Continued)

The Economic Development Corporation (EDC) was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The EDC's governing body, which consists of nine individuals, is appointed by the City's mayor with the approval of the City Council.

The Local Development Financing Authority (LDFA) was established pursuant to P.A. 281 of 1986 to prevent conditions of unemployment, promote economic growth, and authorize the acquisition and disposal of interests in real and personal property. The LDFA's governing body, which consists of 10 individuals, is appointed by the City Council. In addition, the LDFA's annual budget is subject to review and approval by the City Council. There has been no activity for the LDFA.

The Brownfield Redevelopment Authority was created to facilitate the implementation of plans relating to the identification and treatment of environmentally distressed areas to promote revitalization within the Brownfield Redevelopment Zone. The Brownfield governing body, which consists of seven individuals, is selected by the City Council. In addition, their budgets are subject to approval by the City Council.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets (deficit) and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Note I - Summary of Significant Accounting Policies (Continued)

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Noncurrent receivables, such as special assessments, are recorded at full value and deferred revenue is recorded for the portion not available for use to finance operations as of year end. Interest income on special assessments receivable is not accrued until its due date. All other revenue items are considered to be available only when cash is received by the City.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Note I - Summary of Significant Accounting Policies (Continued)

The M-59 Utilities SAD Retirement Fund is used to account for the annual payment of principal, interest, and expenses in connection with the M-59 district debt. In 2000, the City bonded for the payment of expenses related to the installation of water and sewer lines in the district, and the district is specially assessed to fund the payments.

The 1995 Special Assessment Fund is used to account for the annual payment of principal, interest, and expenses in connection with the Thompson Lake District bond debt. In 1995, the City bonded for payment of expenses related to the installation of water and sewer lines in the district and the district is specially assessed to fund the payments.

The Parks and Recreation Fund is used to track revenues and expenditures related to the parks and recreation activities in the City of Howell. The Parks and Recreation Department conducts classes, manages sports for youth and adults, and coordinates special events in addition to providing space for elderly and preschool activities. Revenues consist of charges for classes and activities, space rental, contributions from participating townships, grants, and a substantial subsidy from the General Fund.

The City reports the following major proprietary funds:

The Water Supply System Fund is used to account for the results of operations that provide water services, including water treatment and distribution, to residential, commercial, and industrial customers. The services of the water treatment plant are financed primarily by a user charge for the provision of those services. In addition to capturing the results of operations, the Water Supply System Fund also accounts for the annual payment of principal, interest, and expenses related to the 1998 Water Revenue and Revenue Refunding bonds issued to construct a new water plant. A water debt fee is charged to utility customers to fund the water bond payments.

The Sewage Disposal System Fund is used to account for the results of operations that provide sewer services, including wastewater collection and treatment, to residential, commercial, and industrial customers. As part of an agreement with Marion Township, contractual sewer services are provided to a portion of those township residents as well. The services of the wastewater treatment plant are financed primarily by a user charge for the provision of those services.

Additionally, the City reports the following fund types:

Internal Service Funds account for major machinery and equipment purchases and maintenance provided to other departments of the City on a cost reimbursement basis.

Note I - Summary of Significant Accounting Policies (Continued)

Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, organizations, other governments, and/or other funds. These include the Pension and Other Employee Benefits Fund and the Agency Funds. The Pension and Other Employee Benefits Fund is accounted for like a proprietary fund. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

The Public Employee Healthcare Fund is a pension and other employee benefits fund which accounts for the activities of providing health care benefits to retirees and employees of the City in the future.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water Supply System Fund and the Sewage Disposal System Fund also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Note 1 - Summary of Significant Accounting Policies (Continued)

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on August 1 of the following year, at which time penalties and interest are assessed.

The City of Howell's 2005 ad valorem tax is levied and collectible on July 1, 2005 and is recognized as revenue in the year ended June 30, 2006, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2005 taxable valuation of Howell totaled \$375.3 million (a portion of which is abated and a portion of which is captured by the TIFA and DDA), on which ad valorem taxes levied consisted of 14.9443 mills for operating purposes. This resulted in \$4.9 million for operating purposes. These amounts are recognized in the General Fund financial statements as tax revenue.

All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - The revenue bonds of the Enterprise Funds require amounts to be set aside for a bond reserve and replacement and improvement. These amounts have been classified as restricted assets.

Note I - Summary of Significant Accounting Policies (Continued)

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, there was no interest expense capitalized as part of the cost of assets under construction.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Roads and sidewalks	10 to 25 years
Land improvements	10 to 25 years
Water and sewer distribution systems	40 to 50 years
Buildings and building improvements	5 to 30 years
Vehicles	3 to 5 years
Office furnishings	5 to 7 years
Other tools and equipment	3 to 7 years

Compensated Absences - It is the City's policy to permit employees to accumulate earned but unused paid time-off benefits. All paid time-off pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only when they have matured or come due for payment, generally when an individual's employment has terminated as of year end.

Note 1 - Summary of Significant Accounting Policies (Continued)

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and Special Revenue Funds. All annual appropriations lapse at fiscal year end. Charter provisions require department head budget submissions by the second Monday in February, submission of the budget to Council by the second Monday in April, and adoption of the budget by the third Monday in May.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level.

Note 2 - Stewardship, Compliance, and Accountability (Continued)

Amounts encumbered for purchase orders, contracts, etc., are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Excess of Expenditures Over Appropriations in Budgeted Funds - The City did not have significant expenditure budget variances.

Fund Deficits - The City has accumulated fund and net asset deficits in the following funds:

Brownfield Redevelopment Authority	\$ 202,469
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The Brownfield Redevelopment Authority will capture property taxes in the future to eliminate this deficit.

The Tax Increment Financing Authority has an unrestricted net asset deficit of \$118,331; however, on the modified accrual basis of accounting, the fund balance is \$76,669 and no fund deficit exists. Accordingly, the City feels that this is not a violation of state law.

The Downtown Development Authority has an unrestricted net asset deficit of \$70,077; however, on the modified accrual basis of accounting, the fund balance is \$413,091 and no fund deficit exists. Accordingly, the City feels that this is not a violation of state law.

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of governments in Michigan.

Note 3 - Deposits and Investments (Continued)

The City has designated six banks for the deposit of its funds. The investment policy adopted by the Council in accordance with Public Act 196 of 1997 has authorized investment as allowed by the state statutory authority as listed above. The City's deposits and investment policies are in accordance with statutory authority.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$10,297,070 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Bank investment pool	\$ 673,139	N/A	N/A
Interlocal agreement fund	1,112,625	N/A	N/A
Money market	587,791	N/A	N/A

Note 4 - Receivables

Receivables as of year end for the City's individual major funds and the nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	M-59 Utilities SAD Debt Retirement Fund	1995 Special Assessment Fund	Parks and Recreation	Water Supply System	Sewage Disposal System	Nonmajor and Other Funds	Total
Receivables:								
Taxes	\$ 24,743	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 24,743
Special assessments	5,348	187,216	209,855	-	-	-	-	402,419
Accounts	36,730	-	-	4,264	222,543	153,125	18,743	435,405
Total	<u>\$ 66,821</u>	<u>\$ 187,216</u>	<u>\$ 209,855</u>	<u>\$ 4,264</u>	<u>\$ 222,543</u>	<u>\$ 153,125</u>	<u>\$ 18,743</u>	<u>\$ 862,567</u>

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Special assessments	\$ 402,419	\$ -

Note 5 - Capital Assets

Capital asset activity of the City's governmental, business-type, and component units was as follows:

	Balance July 1, 2005	Reclassifications	Additions	Disposals and Adjustments	Balance June 30, 2006
Governmental Activities					
Capital assets not being depreciated:					
Land	\$ 1,035,214	\$ -	\$ -	\$ -	\$ 1,035,214
Construction in progress	1,103,401	(542,342)	757,498	-	1,318,557
Subtotal	2,138,615	(542,342)	757,498	-	2,353,771
Capital assets being depreciated:					
Land improvements	1,606,883	101,740	-	-	1,708,623
Roads and sidewalks	13,403,166	440,602	1,721,295	-	15,565,063
Buildings and improvements	6,334,133	-	101,535	-	6,435,668
Furniture and equipment	3,824,471	-	511,907	122,679	4,213,699
Subtotal	25,168,653	542,342	2,334,737	122,679	27,923,053
Accumulated depreciation:					
Land improvements	602,751	-	67,059	-	669,810
Roads and sidewalks	6,068,546	-	819,868	-	6,888,414
Buildings and improvements	2,365,858	-	242,514	-	2,608,372
Furniture and equipment	2,983,429	-	378,897	106,240	3,256,086
Subtotal	12,020,584	-	1,508,338	106,240	13,422,682
Net capital assets being depreciated	13,148,069	542,342	826,399	16,439	14,500,371
Net capital assets	\$ 15,286,684	\$ -	\$ 1,583,897	\$ 16,439	\$ 16,854,142

Note 5 - Capital Assets (Continued)

Business-type Activities	Balance July 1, 2005	Reclassifications	Additions	Disposals and Adjustments	Balance June 30, 2006
Capital assets not being depreciated:					
Land	\$ 430,064	\$ -	\$ -	\$ -	\$ 430,064
Construction in progress	761,833	(200,454)	-	-	561,379
Subtotal	1,191,897	(200,454)	-	-	991,443
Capital assets being depreciated:					
Water and sewer distribution systems	9,883,792	200,454	276,776	-	10,361,022
Buildings and building improvements	23,486,020	-	127,001	-	23,613,021
Other tools and equipment	1,146,356	-	23,581	-	1,169,937
Subtotal	34,516,168	200,454	427,358	-	35,143,980
Accumulated depreciation:					
Water and sewer distribution systems	1,523,820	-	420,595	-	1,944,415
Buildings and building improvements	7,443,193	-	190,903	-	7,634,096
Other tools and equipment	711,136	-	221,404	-	932,540
Subtotal	9,678,149	-	832,902	-	10,511,051
Net capital assets being depreciated	24,838,019	200,454	(405,544)	-	24,632,929
Net capital assets	<u>\$ 26,029,916</u>	<u>\$ -</u>	<u>\$ (405,544)</u>	<u>\$ -</u>	<u>\$ 25,624,372</u>
Component Units					
Capital assets not being depreciated - Land	\$ 151,652	\$ -	\$ -	\$ -	\$ 151,652
Capital assets being depreciated - Land improvements	-	-	117,111	-	117,111
Accumulated depreciation - Land improvements	-	-	5,856	-	5,856
Net capital assets being depreciated	-	-	111,255	-	111,255
Net capital assets	<u>\$ 151,652</u>	<u>\$ -</u>	<u>\$ 111,255</u>	<u>\$ -</u>	<u>\$ 262,907</u>

Note 5 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 233,535
Public safety	89,031
Public works	819,868
Community and economic development	22,784
Recreation and culture	108,681
Internal Service Fund depreciation is charged to the various functions based on their usage of the asset	<u>234,439</u>

Total governmental activities	<u>\$ 1,508,338</u>
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Business-type activities:

Water	\$ 274,296
Sewer	<u>558,606</u>

Total business-type activities	<u>\$ 832,902</u>
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Construction Commitments - The City has active construction projects at year end. At year end, the City's commitments with contractors are as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Loop Road project	\$ 592,607	\$ 406,035
D-19 Construction	15,584	183,857
M-59 Boardwalk project	<u>30,332</u>	<u>74,718</u>
Total	<u>\$ 638,523</u>	<u>\$ 664,610</u>

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due To/From Other Funds		
General Fund	Water Supply Fund	\$ 2,123
	Other governmental funds	<u>49,740</u>
Total General Fund		51,863
Parks and Recreation Fund	General Fund	16,427
	Other governmental funds	<u>6,727</u>
Total Parks and Recreation Fund		23,154
Other nonmajor governmental funds	General Fund	80,619
Internal Service Funds	General Fund	278
	Water Supply Fund	8,605
	Sewage Disposal Fund	10,249
	Other nonmajor governmental funds	<u>10,169</u>
Total Internal Service Funds		<u>29,301</u>
Total governmental activities		184,937
Water Supply Fund	General Fund	<u>1,762</u>
Total due to/from other funds		<u>\$ 186,699</u>

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur and (2) payments between funds are made.

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund Transfers

	Transfers Out				Total
	General Fund	Water Supply System	Sewage Disposal System	Other Nonmajor Governmental Funds	
Transfers in:					
General Fund	\$ -	\$ -	\$ -	\$ 14,600	\$ 14,600
Parks and Recreation	502,480	-	-	16,400	518,880
Other nonmajor governmental funds	<u>1,395,545</u>	<u>53,572</u>	<u>10,369</u>	<u>576,384</u>	<u>2,035,870</u>
Total	<u>\$ 1,898,025</u>	<u>\$ 53,572</u>	<u>\$ 10,369</u>	<u>\$ 607,384</u>	<u>\$ 2,569,350</u>

Transfers are used to provide resources from unrestricted General Fund revenues to finance various programs accounted for in other funds, in accordance with budgetary authorizations. The Water and Sewer Funds contribute their portions of the general obligation debt. The other nonmajor governmental funds mostly consisted of transfers providing the initial funding of the Loop Road project and will be repaid when bonds are sold.

Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Note 7 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
General obligation bonds - 1995 General					
Obligation - Limited Tax Bonds	\$ 760,000	\$ -	\$ 135,000	\$ 625,000	\$ 140,000
Capital improvement bonds -					
Capital Improvement Series 2005	1,700,000	-	80,000	1,620,000	85,000
Special assessment bonds:					
1995 Special Assessment (General					
Obligation Limited Tax) Bonds	710,000	-	145,000	565,000	140,000
Series 2000A	355,000	-	35,000	320,000	35,000
Building Authority Bonds - Series 1994	325,000	-	60,000	265,000	60,000
Total governmental activities	3,850,000	-	455,000	3,395,000	460,000
Business-type Activities - Revenue and					
Revenue Refunding Bonds - Series 1998	1,458,814	12,698	235,000	1,236,512	227,302
Component Units					
Capital Improvement Bond	460,000	-	40,000	420,000	45,000
1999 Development Bonds	255,000	-	60,000	195,000	60,000
Note payable	95,000	-	30,000	65,000	30,000
Land contract payable	25,366	-	16,714	8,652	8,652
Total component units activities	835,366	-	146,714	688,652	143,652
Total long-term debt obligations	\$ 6,144,180	\$ 12,698	\$ 836,714	\$ 5,320,164	\$ 830,954

Annual debt service requirements to maturity for the above bond and note obligations are as follows:

	Governmental Activities			Business-type Activities			Component Units		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 460,000	\$ 145,809	\$ 605,809	\$ 227,302	\$ 51,511	\$ 278,813	\$ 143,652	\$ 28,652	\$ 172,304
2008	485,000	122,003	607,003	237,302	42,150	279,452	145,000	22,181	167,181
2009	510,000	96,704	606,704	247,302	32,400	279,702	120,000	15,918	135,918
2010	535,000	70,060	605,060	257,302	22,000	279,302	50,000	9,897	59,897
2011	155,000	53,347	208,347	267,304	11,200	278,504	55,000	8,055	63,055
2012-2016	685,000	181,653	866,653	-	-	-	175,000	10,959	185,959
2017-2020	565,000	57,624	622,624	-	-	-	-	-	-
Total	\$ 3,395,000	\$ 727,200	\$ 4,122,200	\$ 1,236,512	\$ 159,261	\$ 1,395,773	\$ 688,652	\$ 95,662	\$ 784,314

Note 8 - Restricted Assets

The balances of the restricted asset accounts are as follows:

	Business-type Activities
Customer deposits	\$ 6,070
Revenue bond restrictions - Bond reserve	359,192
Capital replacement restrictions - Replacement and improvement account	<u>2,389,759</u>
Total restricted assets	<u>\$ 2,755,021</u>

Customer Deposits - Customer deposits represent amounts received from water customers residing in rental units.

Bond Reserve - The System is required to maintain an account to be used solely for the payment of principal and interest when there would otherwise be default.

Replacement and Improvement - These amounts are to be used solely for the purpose of making major repairs and replacements to the System.

Net assets of the Enterprise Funds have been restricted for the bond reserve and the replacement and improvement account. Since the customer deposits are recorded as a liability equal to the restricted assets, net assets have not been restricted for this amount.

Note 9 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefits and participates in the Michigan Municipal Risk Management Authority (risk pool) for claims relating to general and auto liability, auto physical damage, and property loss claims and the Michigan Municipal League Workers' Compensation Fund for workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Municipal Risk Management Authority (the "Authority") risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority which the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the City.

The City estimates the liability for claims relating to general and auto liability, auto physical damage, and property loss claims that have been incurred through the end of the fiscal year, including claims that have been reported as well as those that have not yet been reported. Changes in the estimated liability for the past two fiscal years were as follows:

	<u>2006</u>	<u>2005</u>
Unpaid Claims - Beginning of year	\$ -	\$ -
Incurred claims (including claims incurred but not reported)	72,871	73,959
Claim payments	<u>(72,871)</u>	<u>(73,959)</u>
Unpaid Claims - End of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

Note 10 - Defined Benefit Pension Plan and Postretirement Benefits

Plan Description - The City participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the City. MERS provides retirement, disability, and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy - The obligation to contribute to and maintain MERS for these employees was established by council resolution and negotiation with the City's competitive bargaining units and requires a contribution from the employees of from 2.00 percent up to 4.80 percent of wages.

Annual Pension Costs - For the year ended June 30, 2006, the City's annual pension cost of \$514,550 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2004, using the entry age normal cost method. Significant actuarial assumptions used include: (i) an 8.0 percent investment rate of return; (ii) projected salary increases of 4.5 percent per year; and (iii) additional projected salary increases ranging from 0 percent to 8.4 percent per year, depending on age, attributable to seniority/merit. Both (i) and (ii) include an inflation component of 4.5 percent and are determined using techniques that smooth the effects of short-term volatility over a 10-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Note 10 - Defined Benefit Pension Plan and Postretirement Benefits (Continued)

Three-year trend information is as follows:

	Fiscal Year Ended June 30		
	2004	2005	2006
General Employees' Retirement System:			
Annual pension costs (APC)	\$ 401,830	\$ 486,572	\$ 514,550
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -
Actuarial Valuation as of December 31			
	2003	2004	2005
Actuarial value of assets	\$ 8,038,118	\$ 8,801,291	\$ 9,518,226
Actuarial accrued liability - Entry age	\$ 12,335,270	\$ 13,457,087	\$ 14,452,965
Unfunded AAL	\$ 4,297,152	\$ 4,655,796	\$ 4,934,739
Funded ratio	65%	65%	66%
Covered payroll	\$ 3,690,982	\$ 3,507,778	\$ 3,604,461
UAAL as a percentage of covered payroll	116%	133%	137%

Defined Contribution Pension Plan

The Downtown Development Authority (DDA) provides pension benefits to its director and assistant director through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by negotiation, the DDA contributes 10 percent of the employees' gross earnings. In accordance with these requirements, the DDA contributed \$9,366 during the current year, and no contributions were made by the employees. This plan is administered by the International City Manager's Association.

Note 11 - Construction Code Fees

The City oversees building construction, in accordance with the State's Construction Code Act, including inspections of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs.

A summary of the current year activity and the cumulative surplus or shortfall generated since January 1, 2000 is as follows:

Cumulative surplus at June 30, 2005	\$	3,763
Current year building permit revenue		102,204
Related expenses:		
Direct costs	\$	149,389
Estimated indirect costs		<u>14,939</u>
Total construction code expenses		<u>164,328</u>
Cumulative deficit at June 30, 2006	\$	<u><u>(58,361)</u></u>

Note 12 - Contingent Liabilities

The City has been served in civil and administrative actions brought against it seeking damages from matters within the geographical limits of and/or activities of the City of Howell, Michigan. In the opinion of the administration and its legal counsel, any potential settlement of these actions should have no material effect upon the financial position of the City.

Note 13 - Lucy Road Park

During the 1960s, the City operated a public landfill off Lucy Road. In the early 1970s, the site was converted to a recreation park. In 1987, the Michigan Department of Natural Resources (MDNR) determined through well data reports that an environmental problem exists at the site. In response, the City hired an environmental law firm to negotiate with the MDNR to resolve the problem.

The City reached a final agreement with the Michigan Department of Environmental Quality (MDEQ) to repay \$187,500 incurred by the MDEQ and the State of Michigan for replacing the water supply previously used by area businesses and residents. The costs incurred by the MDEQ were \$625,000. Other responsible parties were also held liable and reimbursed the City for their portion of the costs.

In addition, potential future remediation costs may be incurred. There is also a 60/40 percent agreement with another responsible party related to the remediation with the City. Total costs of future remediation cannot yet be estimated; therefore, no liability has been recorded.

Note 14 - Joint Venture

The City is a member of the Howell Area Fire Authority, which was jointly incorporated by the City of Howell, Cohoctah Township, Marion Township, Oceola Township, and Howell Township (the "Municipalities") for the purpose of providing fire protection and other emergency health and safety services to the Municipalities. The City appoints a member to the joint venture's governing board which then approves the annual budget. The City's equity interest in the joint venture at June 30, 2006 is \$407,118, which is recorded within the governmental activities column in the statement of net assets (deficit). The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the Authority can be obtained from the administrative offices at 1211 W. Grand River, Howell, Michigan.

Note 15 - Other Postemployment Benefits

In addition to the pension benefits described in Note 10, the City provides postemployment health care benefits to all employees with 15 years of service. Currently, 16 retirees are eligible. The City will pay the full amount of health care benefits for employees who have 20 or more years of service. The City will pay a percentage, varying from 75 percent to 95 percent, of health care benefits for employees with 15 to 19 years of service. The cost of retiree health care benefits is recognized when the premiums are paid. For the year ended June 30, 2006, those costs totaled \$116,201, net of employee reimbursement of \$9,576.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

Required Supplemental Information

City of Howell

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 2,071,799	\$ 2,670,756	\$ 2,670,756	\$ -
Resources (Inflows)				
Property taxes:				
Current	5,180,196	4,978,463	4,889,487	(88,976)
Delinquent	2,500	5,000	17,910	12,910
Interest and penalties	10,000	20,000	20,079	79
Administration fees	115,000	121,400	121,420	20
Total property taxes	5,307,696	5,124,863	5,048,896	(75,967)
Federal sources:				
Fingerprint grant	-	7,500	7,500	-
LAWNET	30,000	30,000	35,940	5,940
Total federal sources	30,000	37,500	43,440	5,940
State and local sources:				
Sales tax	830,000	861,000	860,697	(303)
Other	14,904	33,554	15,626	(17,928)
Total state and local sources	844,904	894,554	876,323	(18,231)
Licences and permits:				
Business	104,150	106,150	107,890	1,740
Nonbusiness	162,000	72,000	87,237	15,237
Total licenses and permits	266,150	178,150	195,127	16,977
Fines and forfeitures - Traffic code fines	80,000	80,000	76,793	(3,207)
Charges for services:				
Building department	18,000	19,000	16,982	(2,018)
Human resources	65,000	65,000	65,062	62
Cemetery	57,500	55,500	69,376	13,876
Parks and recreation	12,300	13,206	11,892	(1,314)
Total charges for services	152,800	152,706	163,312	10,606
Investment and rental income:				
Investment income	36,000	90,000	97,047	7,047
Rental income	173,000	174,869	173,121	(1,748)
Total investment and rental income	209,000	264,869	270,168	5,299

City of Howell

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Resources (Inflows) (Continued)				
Other revenue:				
Special assessments	\$ 10,000	\$ 10,000	\$ 2,023	\$ (7,977)
Administrative overhead	40,000	40,000	40,000	-
Reimbursements	104,300	96,214	91,495	(4,719)
Refunds and rebates	-	8,200	8,091	(109)
Miscellaneous	91,855	101,382	104,870	3,488
Total other revenue	246,155	255,796	246,479	(9,317)
Other financing sources - Transfers from other funds	161,600	14,600	14,600	-
Total resources (inflows)	7,298,305	7,003,038	6,935,138	(67,900)
Charges to Appropriations (Outflows)				
General government:				
Mayor and council	52,407	58,842	52,577	6,265
Manager	193,497	200,200	182,940	17,260
Finance director	172,671	227,320	220,648	6,672
Assistant manager/personnel and safety	128,420	149,920	130,852	19,068
Elections	16,050	10,550	9,703	847
Treasurer	248,532	253,532	249,497	4,035
Assessor	147,109	154,889	150,196	4,693
Attorney	101,950	167,650	146,963	20,687
Board of Review	3,700	3,600	2,990	610
Cable commission	875	850	136	714
Clerk	161,679	138,243	134,263	3,980
City Hall	248,706	284,073	270,905	13,168
Parking lot maintenance	32,076	41,538	38,135	3,403
Cemetery	263,993	242,034	213,221	28,813
Cemetery - M59	169,318	14,050	12,103	1,947
Forestry/Conservation	82,851	111,413	104,773	6,640
Information technology	205,246	181,356	168,624	12,732
Contingencies	20,000	-	-	-
Tax tribunal refunds	25,000	223,749	215,289	8,460
Single business tax inventory reimbursement	6,809	6,810	6,809	1
Total general government	2,280,889	2,470,619	2,310,624	159,995

City of Howell

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Charges to Appropriations (Outflows)				
(Continued)				
Public safety:				
Police	\$ 2,283,068	\$ 2,304,308	\$ 2,205,235	\$ 99,073
Fire	26,397	37,481	36,321	1,160
Building inspector	186,961	151,823	149,388	2,435
Zoning department	86,214	70,352	66,252	4,100
Planning commissioner	49,809	117,536	110,127	7,409
Total public safety	2,632,449	2,681,500	2,567,323	114,177
Public works:				
Sidewalk maintenance	153,812	77,425	72,881	4,544
Drain work	139,500	26,920	26,919	1
Engineering	154,474	62,722	49,247	13,475
Street lighting	263,250	255,200	253,370	1,830
Total public works	711,036	422,267	402,417	19,850
Recreation and cultural:				
Community promotion	121,661	145,097	131,512	13,585
Neighborhood parks	33,719	29,416	25,220	4,196
Total recreation and cultural	155,380	174,513	156,732	17,781
Other financing uses - Transfers to other funds	1,831,913	2,135,677	1,898,025	237,652
Total charges to appropriations (outflows)	7,611,667	7,884,576	7,335,121	549,455
Fund Balance - End of year	\$ 1,758,437	\$ 1,789,218	\$ 2,270,773	\$ 481,555

City of Howell

Required Supplemental Information Budgetary Comparison Schedule -Parks and Recreation Fund Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 10,161	\$ 10,161	\$ 10,161	\$ -
Resources (Inflows)				
Charges for services	504,573	499,573	479,464	(20,109)
Investment income	100	100	34	(66)
Other	21,581	24,105	30,112	6,007
Other financing sources - Transfers from other funds	<u>605,727</u>	<u>592,480</u>	<u>518,880</u>	<u>(73,600)</u>
Total resources (inflows)	1,131,981	1,116,258	1,028,490	(87,768)
Charges to Appropriations (Outflows)				
Recreation and culture	1,038,781	1,001,176	966,155	35,021
Capital outlay	<u>93,200</u>	<u>103,811</u>	<u>66,503</u>	<u>37,308</u>
Total charges to appropriations	<u>1,131,981</u>	<u>1,104,987</u>	<u>1,032,658</u>	<u>72,329</u>
Fund Balance - End of year	<u><u>\$ 10,161</u></u>	<u><u>\$ 21,432</u></u>	<u><u>\$ 5,993</u></u>	<u><u>\$ (15,439)</u></u>

Other Supplemental Information

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2006

	Special Revenue Funds						
	Major Street	Local Street	Rubbish and Garbage	Lucy Road Park Recovery	Drug Law Enforcement	Police Training	Property
Assets							
Cash and investments	\$ 172,794	\$ 2,749	\$ 1,098	\$ 105,887	\$ 4,950	\$ 4,055	\$ 3,519
Receivables - Net	-	-	18,743	-	-	-	-
Prepaid costs and other assets	4,678	4,485	5,189	-	-	-	-
Due from other funds	-	-	-	-	-	-	-
Due from other governmental units	68,692	24,290	-	-	-	-	-
Land held for sale	-	-	-	-	-	-	456,497
Total assets	<u>\$ 246,164</u>	<u>\$ 31,524</u>	<u>\$ 25,030</u>	<u>\$ 105,887</u>	<u>\$ 4,950</u>	<u>\$ 4,055</u>	<u>\$ 460,016</u>
Liabilities and Fund Balances							
Liabilities							
Accounts payable	\$ 2,763	\$ 7,866	\$ 3,522	\$ 1,629	\$ -	\$ 438	\$ -
Accrued and other liabilities	2,119	1,254	933	172	-	-	-
Due to other funds	3,348	22,404	20,575	2,412	-	1,406	-
Total liabilities	8,230	31,524	25,030	4,213	-	1,844	-
Fund Balances							
Reserved:							
Law enforcement	-	-	-	-	4,950	2,211	-
Land for sale	-	-	-	-	-	-	456,497
Cemetery	-	-	-	-	-	-	-
Unreserved:							
Special revenue	237,934	-	-	101,674	-	-	3,519
Capital projects	-	-	-	-	-	-	-
Total fund balances	237,934	-	-	101,674	4,950	2,211	460,016
Total liabilities and fund balances	<u>\$ 246,164</u>	<u>\$ 31,524</u>	<u>\$ 25,030</u>	<u>\$ 105,887</u>	<u>\$ 4,950</u>	<u>\$ 4,055</u>	<u>\$ 460,016</u>

City of Howell

Other Supplemental Information Combining Balance Sheet (Continued) Nonmajor Governmental Funds June 30, 2006

	Special Revenue Funds	Debt Service Funds			Capital Projects Funds		
	Reserves	1995 General Obligation	Building Authority Bond	City Hall Debt Retirement	Isbell Street Fund	City Hall Construction Fund	South Michigan Avenue Fund
Assets							
Cash and investments	\$ 113,719	\$ -	\$ -	\$ 342	\$ -	\$ 26,922	\$ 245,119
Receivables - Net	-	-	-	-	-	-	-
Prepaid costs and other assets	-	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	-	8,773
Due from other governmental units	-	-	-	-	-	-	-
Land held for sale	-	-	-	-	-	-	-
Total assets	<u>\$ 113,719</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 342</u>	<u>\$ -</u>	<u>\$ 26,922</u>	<u>\$ 253,892</u>
Liabilities and Fund Balances							
Liabilities							
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,377	\$ -
Accrued and other liabilities	-	-	-	-	-	-	-
Due to other funds	<u>13,850</u>	<u>-</u>	<u>-</u>	<u>342</u>	<u>-</u>	<u>729</u>	<u>-</u>
Total liabilities	13,850	-	-	342	-	3,106	-
Fund Balances							
Reserved:							
Law enforcement	-	-	-	-	-	-	-
Land for sale	-	-	-	-	-	-	-
Cemetery	-	-	-	-	-	-	-
Unreserved:							
Special revenue	99,869	-	-	-	-	-	-
Capital projects	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,816</u>	<u>253,892</u>
Total fund balances	<u>99,869</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,816</u>	<u>253,892</u>
Total liabilities and fund balances	<u>\$ 113,719</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 342</u>	<u>\$ -</u>	<u>\$ 26,922</u>	<u>\$ 253,892</u>

Other Supplemental Information Combining Balance Sheet (Continued) Nonmajor Governmental Funds June 30, 2006

	Capital Projects Funds						Permanent Fund	
	D-19 Construction Fund	M-59 Boardwalk Fund	Clinton Street Construction Fund	2000 M-59 Utility Fund	Skate Park Construction Fund	Loop Road Construction Fund	Cemetery Perpetual Fund	Total Nonmajor Governmental Funds
Assets								
Cash and investments	\$ -	\$ 96,318	\$ -	\$ 66,618	\$ 486	\$ 287,326	\$ 505,330	\$ 1,637,232
Receivables - Net	-	-	-	-	-	-	-	18,743
Prepaid costs and other assets	-	-	-	-	-	-	-	14,352
Due from other funds	10,595	-	48,591	-	12,660	-	-	80,619
Due from other governmental units	-	-	-	-	-	-	-	92,982
Land held for sale	-	-	-	-	-	-	-	456,497
Total assets	<u>\$ 10,595</u>	<u>\$ 96,318</u>	<u>\$ 48,591</u>	<u>\$ 66,618</u>	<u>\$ 13,146</u>	<u>\$ 287,326</u>	<u>\$ 505,330</u>	<u>\$ 2,300,425</u>
Liabilities and Fund Balances								
Liabilities								
Accounts payable	\$ 10,595	\$ 21,601	\$ -	\$ -	\$ 13,048	\$ 82,301	\$ -	\$ 146,140
Accrued and other liabilities	-	-	-	-	-	-	-	4,478
Due to other funds	-	-	-	-	98	-	-	65,164
Total liabilities	10,595	21,601	-	-	13,146	82,301	-	215,782
Fund Balances								
Reserved:								
Law enforcement	-	-	-	-	-	-	-	7,161
Land for sale	-	-	-	-	-	-	-	456,497
Cemetery	-	-	-	-	-	-	505,330	505,330
Unreserved:								
Special revenue	-	-	-	-	-	-	-	442,996
Capital projects	-	74,717	48,591	66,618	-	205,025	-	672,659
Total fund balances	-	74,717	48,591	66,618	-	205,025	505,330	2,084,643
Total liabilities and fund balances	<u>\$ 10,595</u>	<u>\$ 96,318</u>	<u>\$ 48,591</u>	<u>\$ 66,618</u>	<u>\$ 13,146</u>	<u>\$ 287,326</u>	<u>\$ 505,330</u>	<u>\$ 2,300,425</u>

Other Supplemental Information

Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds Year Ended June 30, 2006

	Special Revenue Funds						
	Major Street	Local Street	Rubbish and Garbage	Lucy Road Park Recovery	Drug Law Enforcement	Police Training	Property
Revenue							
Federal sources	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State sources	408,572	146,595	-	-	-	4,805	-
Charges for services	-	-	146,660	-	-	-	-
Investment income	3,177	461	153	6,077	-	-	10,269
Other	3,331	26,202	448	-	-	-	-
Total revenue	415,080	173,258	147,261	6,077	-	4,805	10,269
Expenditures							
Current:							
Public safety	-	-	-	-	-	4,746	-
Public works	343,035	334,587	601,328	57,615	-	-	-
Other	-	-	-	-	-	-	1,500
Capital outlay	-	-	-	-	-	-	-
Debt service:							
Principal retirement	-	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-	-
Total expenditures	343,035	334,587	601,328	57,615	-	4,746	1,500
Excess of Revenue Over (Under) Expenditures	72,045	(161,329)	(454,067)	(51,538)	-	59	8,769
Other Financing Sources (Uses)							
Transfers in	-	54,819	454,067	-	-	-	-
Transfers out	-	-	-	-	-	-	(94,361)
Total other financing sources (uses)	-	54,819	454,067	-	-	-	(94,361)
Net Change in Fund Balances	72,045	(106,510)	-	(51,538)	-	59	(85,592)
Fund Balances - Beginning of year	165,889	106,510	-	153,212	4,950	2,152	545,608
Fund Balances - End of year	\$ 237,934	\$ -	\$ -	\$ 101,674	\$ 4,950	\$ 2,211	\$ 460,016

Other Supplemental Information

Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds (Continued)

Year Ended June 30, 2006

	Special Revenue Funds	Debt Service Funds			Capital Projects Funds		
		1995 General	Building	City Hall Debt	Isbell Street	City Hall	South Michigan
	Reserves	Obligation	Authority Bond	Retirement	Fund	Construction	Avenue
						Fund	
Revenue							
Federal sources	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 114,757
State sources	-	-	-	-	-	-	3,093
Charges for services	-	-	-	-	-	-	-
Investment income	21,131	-	-	-	66	1,242	2,617
Other	-	-	-	-	-	-	-
Total revenue	21,131	-	-	-	66	1,242	120,467
Expenditures							
Current:							
Public safety	-	-	-	-	-	-	-
Public works	-	-	-	-	-	-	-
Other	1,200	-	-	-	5,487	-	-
Capital outlay	-	-	-	225	633,317	110,905	22,530
Debt service:							
Principal retirement	-	135,000	60,000	80,000	-	-	-
Interest and fiscal charges	-	38,013	17,110	66,781	-	-	-
Total expenditures	1,200	173,013	77,110	147,006	638,804	110,905	22,530
Excess of Revenue Over (Under) Expenditures	19,931	(173,013)	(77,110)	(147,006)	(638,738)	(109,663)	97,937
Other Financing Sources (Uses)							
Transfers in	7,863	173,013	77,110	147,006	35,367	-	-
Transfers out	(513,023)	-	-	-	-	-	-
Total other financing sources (uses)	(505,160)	173,013	77,110	147,006	35,367	-	-
Net Change in Fund Balances	(485,229)	-	-	-	(603,371)	(109,663)	97,937
Fund Balances - Beginning of year	585,098	-	-	-	603,371	133,479	155,955
Fund Balances - End of year	\$ 99,869	\$ -	\$ -	\$ -	\$ -	\$ 23,816	\$ 253,892

Other Supplemental Information

Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds (Continued)

Year Ended June 30, 2006

	Capital Projects Funds						Permanent Fund	
	D-19 Construction Fund	M-59 Boardwalk Fund	Clinton Street Construction	2000 M-59 Utility Fund	Skate Park Construction Fund	Loop Road Construction Fund	Cemetery Perpetual Care	Total Nonmajor Governmental Funds
Revenue								
Federal sources	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 114,757
State sources	-	-	-	-	-	-	-	563,065
Charges for services	-	-	-	-	-	-	-	146,660
Investment income	-	-	-	335	15	-	10,394	55,937
Other	-	-	-	-	44,100	-	22,500	96,581
Total revenue	-	-	-	335	44,115	-	32,894	977,000
Expenditures								
Current:								
Public safety	-	-	-	-	-	-	-	4,746
Public works	-	-	-	-	-	-	-	1,336,565
Other	202	-	-	-	-	611	-	9,000
Capital outlay	13,929	30,333	276,409	-	209,092	413,486	-	1,710,226
Debt service:								-
Principal retirement	-	-	-	-	-	-	-	275,000
Interest and fiscal charges	-	-	-	-	-	-	-	121,904
Total expenditures	14,131	30,333	276,409	-	209,092	414,097	-	3,457,441
Excess of Revenue Over (Under) Expenditures	(14,131)	(30,333)	(276,409)	335	(164,977)	(414,097)	32,894	(2,480,441)
Other Financing Sources (Uses)								
Transfers in	14,131	105,050	325,000	-	66,060	576,384	-	2,035,870
Transfers out	-	-	-	-	-	-	-	(607,384)
Total other financing sources (uses)	14,131	105,050	325,000	-	66,060	576,384	-	1,428,486
Net Change in Fund Balances	-	74,717	48,591	335	(98,917)	162,287	32,894	(1,051,955)
Fund Balances - Beginning of year	-	-	-	66,283	98,917	42,738	472,436	3,136,598
Fund Balances - End of year	\$ -	\$ 74,717	\$ 48,591	\$ 66,618	\$ -	\$ 205,025	\$ 505,330	\$ 2,084,643

City of Howell

Other Supplemental Information Combining Statement of Net Assets Internal Service Funds June 30, 2006

	Department of Public Service	Equipment	Totals
Assets			
Current assets:			
Cash and investments	\$ 460,670	\$ 605,909	\$ 1,066,579
Due from other funds	-	29,301	29,301
Due from other governmental units	806	2,797	3,603
Prepaid costs and other assets	2,988	3,801	6,789
Total current assets	464,464	641,808	1,106,272
Noncurrent assets - Net capital assets	154,716	611,280	765,996
Total assets	619,180	1,253,088	1,872,268
Liabilities - Current:			
Accounts payable	1,724	21,820	23,544
Accrued liabilities	31,838	5,499	37,337
Total liabilities	33,562	27,319	60,881
Net Assets			
Invested in capital assets - Net of related debt	154,716	611,280	765,996
Unrestricted	430,902	614,489	1,045,391
Total net assets	<u>\$ 585,618</u>	<u>\$ 1,225,769</u>	<u>\$ 1,811,387</u>

City of Howell

Other Supplemental Information Combining Statement of Revenue, Expenses, and Changes in Net Assets Internal Service Funds Year Ended June 30, 2006

	Department of Public Service	Equipment	Totals
Operating Revenue			
Charges for equipment use	\$ 59,444	\$ 539,340	\$ 598,784
Charges for building use	215,869	-	215,869
Miscellaneous	6,598	5,851	12,449
	<u>281,911</u>	<u>545,191</u>	<u>827,102</u>
Operating Expenses			
Payroll	96,240	89,887	186,127
Fringe benefits	56,484	37,530	94,014
Operating supplies	20,256	106,249	126,505
Professional service	6,284	300	6,584
Communications	2,958	1,911	4,869
Insurance	9,228	40,804	50,032
Public utilities	9,982	4,757	14,739
Plant and equipment maintenance	1,038	20,512	21,550
Equipment rental	14,223	51	14,274
Depreciation	22,942	211,497	234,439
Miscellaneous	572	-	572
Overhead	22,572	23,418	45,990
Other expenses	846	-	846
	<u>263,625</u>	<u>536,916</u>	<u>800,541</u>
Operating Income	18,286	8,275	26,561
Nonoperating Income			
Interest income	9,955	11,559	21,514
Sale of vehicles and equipment	-	5,092	5,092
	<u>9,955</u>	<u>16,651</u>	<u>26,606</u>
Net Income	28,241	24,926	53,167
Net Assets - Beginning of year	557,377	1,200,843	1,758,220
Net Assets - End of year	<u>\$ 585,618</u>	<u>\$ 1,225,769</u>	<u>\$ 1,811,387</u>

Other Supplemental Information Combining Statement of Cash Flows Internal Service Funds Year Ended June 30, 2006

	Department of		
	Public Service	Equipment	Totals
Cash Flows from Operating Activities			
Receipts from other funds	\$ 282,611	\$ 544,104	\$ 826,715
Payments to suppliers	(62,116)	(155,163)	(217,279)
Payments to employees	(152,724)	(127,417)	(280,141)
Payments to other funds	(23,736)	53,567	29,831
Net cash provided by operating activities	44,035	315,091	359,126
Cash Flows from Capital Activities			
Purchases of capital assets	-	(160,460)	(160,460)
Proceeds from sale of capital assets	-	20,455	20,455
Net cash used in capital activities	-	(140,005)	(140,005)
Cash Flows from Investing Activities			
Interest received on investments	9,955	11,559	21,514
Purchases of investment securities	276,307	381,778	658,085
Net cash provided by investing activities	286,262	393,337	679,599
Net Increase in Cash and Cash Equivalents	330,297	568,423	898,720
Cash and Cash Equivalents - Beginning of year	130,373	37,486	167,859
Cash and Cash Equivalents - End of year	<u>\$ 460,670</u>	<u>\$ 605,909</u>	<u>\$ 1,066,579</u>
Reconciliation of Operating Income to			
Net Cash from Operating Activities			
Operating income	\$ 18,286	\$ 8,275	\$ 26,561
Adjustments to reconcile operating income to net cash from operating activities:			
Depreciation	22,942	211,497	234,439
Changes in assets and liabilities:			
Accounts receivable	1,506	-	1,506
Due from other funds	-	76,985	76,985
Due from other governmental units	(806)	(1,087)	(1,893)
Prepaid costs and other assets	(1,021)	(2,369)	(3,390)
Accounts payable	(2,518)	17,725	15,207
Due to other funds	(1,164)	-	(1,164)
Accrued liabilities	6,810	4,065	10,875
Net cash provided by operating activities	<u>\$ 44,035</u>	<u>\$ 315,091</u>	<u>\$ 359,126</u>

City of Howell, Michigan

Report to the City Council

June 30, 2006

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To the Honorable Mayor and
Members of the City Council
City of Howell, Michigan

We recently completed our audit of the financial statements of the City of Howell, Michigan for the year ended June 30, 2006. During the performance of our audit, we had the opportunity to observe items related to the internal controls and operations as a whole that we would like to bring to your attention. All items are presented for your consideration on attachments as outlined below.

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We appreciate the opportunity to be of service to the City of Howell. The cooperation extended to us by your staff throughout the audit was greatly appreciated. We look forward to continuing our relationship with the City. Should you wish to discuss any of the items included in this letter, we would be happy to do so.

September 6, 2006

Recommendations

City of Howell, Michigan

Recommendations

Accumulated Personal Leave Time

As noted in the prior year, the City continues to allow employees to carry leave days in excess of the amount specified in its personnel manual. The City's policy for personal leave days states that employees can "carry over a maximum of 44 leave days on the employees' anniversary date." The current financial impact of allowing hours in excess of the policy is approximately \$33,000. We recommend that the City follow the current policy for accumulated personal leave time, or amend the policy appropriately.

Retiree Health Care Benefits

The Governmental Accounting Standards Board has released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. These new rules will apply to the government-wide financial statements rather than the individual fund level. Therefore, the manner in which retiree health care benefits are budgeted will not change, unless you begin funding the benefits (however, as discussed below, there are incentives to do so).

The new pronouncement will require a valuation of the obligation to provide retiree health care benefits, including an amortization of the past service cost over a period of up to 30 years. The valuation must include an annual recommended contribution (ARC). While the ARC does not need to be funded each year, any under funding must be reported as a liability on the government-wide statement of net assets.

This valuation will need to be performed by an actuary if the total participants exceed 100. Participants are defined as employees in active service, terminated employees not yet receiving benefits, plus retirees and beneficiaries currently receiving benefits. For plans with 100 to 200 participants, the actuarial valuation must be at least every three years; for those over 200 participants, at least every other year.

This statement is being phased in over a three year period, similar to GASB 34. It is effective for fiscal years beginning after December 15, 2006, 2007, or 2008 depending on whether your revenues are over \$100 million, between \$10 million and \$100 million, or under \$10 million, respectively. Remember that planning to make the annual recommended contribution generally requires up to three to six months for an actuarial valuation plus six months lead time to work the numbers into the budget. Therefore, we recommend that you begin the actuarial valuation at least one year prior to the above dates.

City of Howell, Michigan

Recommendations

Retiree Health Care Benefits (Continued)

The GASB statement has provided substantial incentive to fund the obligation in accordance with the annual recommended contribution. In addition to the normal fairness issue of paying for a service as you use it, the GASB has directed that lower rates of return be used for evaluating the annual recommended contribution in situations where the recommended contribution is not being funded. This will significantly increase the calculation of the following year's contribution. So – funding the contribution will actually reduce your long run cost.

Legislative Matters

City of Howell, Michigan

Legislative Matters

Revenue Sharing

This year's budget discussion offered hope of an increase in revenue sharing from the last several years. Revenue sharing was identified as a priority by the Legislature during its initial budget discussions in the winter and several proposals existed which included a blanket increase in revenue sharing of several percent and one which tied the increase in revenue sharing to local governments who demonstrated that they had engaged in service sharing, service consolidation, etc. In the end, the summer budget compromises that occurred in July saw no increases in revenue sharing over the last several years.

However, an additional appropriation was made for special census payments in 2006. The revenue sharing act does provide that a city, village, or township with a minimum 10 percent population growth confirmed by a special census, and levying at least one mill, is eligible for an annual payment for a portion or all of the growth in population. Despite this, even if the local government meets these criteria, funds for the special census payment must be appropriated by the Legislature. Therefore, there is risk that a community with a 10 percent or greater population increase since the 2000 census will incur the time and expense of a special census and not have monies appropriated by the Legislature.

With the appropriation reductions to revenue sharing since 2001 (including approximately \$600 million in fiscal year 2006/2007 over amounts calculated by the statutory formula), a number of townships are no longer receiving any statutory revenue sharing. To accomplish the appropriation reductions mandated in the State's budget, the State is required to reduce the statutory portion of a local unit's revenue sharing, (remember that the constitutional portion cannot be adjusted). Many townships no longer have any statutory revenue sharing remaining as a result. For those communities, because sales tax collections have increased, their revenue sharing is actually increasing because they are now only receiving constitutional revenue sharing. Essentially, the remaining amount of statutory revenue sharing in the State's budget (approximately \$400 million) is supporting cities, villages, and larger urban townships.

The statutory formula sunsets in 2007, so these remaining statutory revenue sharing dollars will receive considerable attention next year. Next year, the State will also need to begin dealing with counties again as it relates to statutory revenue sharing. In fiscal year 2004/2005, the State eliminated statutory revenue sharing received by counties (which was approximately \$182 million in fiscal year 2003/2004) and, in return, allowed the counties to advance the levy of their operating millage to July from December. The additional monies from the earlier levy were utilized to create a reserve fund by the counties to replace lost statutory revenue sharing. The expectation is that when the reserve funds at individual counties become depleted, the counties will re-enter the State's statutory revenue sharing formula. It is very possible that the return of county statutory revenue sharing could be at the expense of city, village, and township statutory revenue sharing.

City of Howell, Michigan

Legislative Matters

Revenue Sharing (Continued)

Considering the unknown impact of the State's budget crisis, the anticipated sunset of the statutory formula, and the elimination of the single business tax (see "Update on Business Tax Reform") on state shared revenue, we encourage you to develop a contingency plan to deal with possible additional reductions to this revenue item.

Update on Business Tax Reform (and its impact on local government)

On August 9, 2006, the Michigan Legislature approved a voters' legislative "initiative" to repeal the Michigan Single Business Tax ("SBT") for tax years beginning after December 31, 2007, two years earlier than it was originally slated to end. In addition to the repeal, the law requires the Michigan Department of Treasury to prorate the SBT to result in the equivalent of zero tax on business activity occurring after December 31, 2007. Previously, the SBT was scheduled to be repealed for tax years beginning after December 31, 2009.

Currently, there is no plan for replacement of this \$1.9 billion in lost revenue to the State. If no replacement revenue is identified, statutory revenue sharing may become a target to fill the hole in the State's budget.

Cable Franchise Fees

The State of Michigan has joined a number of other states considering statewide cable TV franchising. There is a bill (HB 6456) that would create a state video service authorization system that would replace the current system of local franchising of cable TV providers, and also would apply to new providers who would provide service through phone lines. Providers would have to provide customers with local stations and "public access" stations, as is currently required for cable systems. Providers would have to pay a fee of up to five percent of gross revenues that would be given to local governments in lieu of the current local cable franchise fees. The legislature has decided to wait until after the November elections to continue discussions regarding this bill.

Task Force Report Issued on Local Government Finance

In 2005, the Governor commissioned a task force to further study Michigan's Municipal Finance Model. The Commission has completed their work and released their report in May 2006. Findings of the report include:

- Revenue for local governments is flat, or declining, due to reductions in state revenue sharing and the interaction of the Headlee Amendment and Proposal A. Mature urban centers have been impacted the hardest.

City of Howell, Michigan

Legislative Matters

Task Force Report Issued on Local Government Finance (Continued)

- While revenues have been restricted, many expenditures are increasing beyond the control of local government. The expenditures include, but are not limited to health care, pension liabilities, and public safety costs.
- The current finance system, based on obsolete revenue foundations, is not resilient or flexible enough to withstand out-migration of taxpayers, whether due to economic downturn or availability of developable land.
- Legacy costs of postemployment benefits to retired workers threaten to overtake the majority of available new revenue for local units.
- Deferring maintenance on critical infrastructure such as roads, sewers, water mains, and buildings, to meet ongoing increases in operating expenditures has left many local governments with crumbling infrastructure and growing future cost liabilities.

The full report can be accessed at: www.migroa.org.

Special Road Project Monies

As part of the Governor's 2006/2007 budget package, \$80 million was proposed to assist local government to move forward on certain transportation projects and get greater access to Federal transportation matching funds. The Legislature approved the Governor's proposal as Public Acts 139, 140, and 141 of 2006. Michigan Department of Transportation officials are reviewing applications for the rest of the funding and the remaining recipients will be announced later this year.

Considering a Transit Tax?

Public Act 175 of 2006 was enacted which extends the previous five-year period allowed to levy taxes for public transportation to 25 years. This extended period provides local governments the ability to take advantage of federal funding that was allocated in 2005's federal transportation reauthorization. Certain Federal grant requirements require that communities support a system for at least 25 years. This public transportation tax does, however, require voter approval.

911 Surcharge Sunset Extended

Local governments receiving monies under the Emergency Service Enabling Act to support 911 operations faced the potential elimination or change in the funding formula at December 31, 2006. To allow further analysis of this issue, the sunset of the Act was extended one year to December 31, 2007 (Public Act 249 of 2006).

City of Howell, Michigan

Legislative Matters

Government Wins Headlee Challenge

The Court of Appeals upheld a trial court decision in July 2006 (A&E Parking v. Wayne County Metro, COA docket No. 261046) that the Wayne County Airport Authority has the right to charge user fees to the more than three-dozen companies that sued the Airport Authority. The suit against the Airport Authority alleged that the fees charged to hotels, shuttle and rental car companies and other users of the property that financially benefit from the airport's location should be deemed illegal taxes under the Headlee Amendment. In rendering their opinion in the Authority's favor, the Court considered the charges appropriate and not taxes for the following reasons:

State law permits fees

- The users such as car rental companies and hotels with shuttles, get a benefit from the airport's existence.
- The fees are not calculated arbitrarily and the users aren't forced to pay the fees.
- The users could choose to take their business elsewhere and avoid the charge.

Despite the victory, it serves as a great reminder to local governments that fees must meet the tests established in the Bolt Case to avoid the classification of fees as un-voted taxes in violation of the Headlee Amendment.

Ballot Proposals

There are currently five issues on the November ballot. They include:

- HJR Z which puts the trust funds that fund the Department of Natural Resources into the Constitution.
- Michigan Civil Rights Initiative to constitutionally prohibit race- and gender-based affirmative action.
- Referendum on PA 160, 2004 seeking voter approval of the dove hunting season law.
- SJR E to constitutionally restrict property seizures under eminent domain to only those for public purposes.
- Citizens for Education requiring inflationary increases in education spending as proposed by the K-16 Coalition for Michigan's Future.

On September 8, 2006, the Michigan Board of Canvassers, in a 4-0 vote, elected to keep the proposed constitutional amendment that has been labeled "Stop Over Spending" off of the November 7, 2006 ballot. This proposal would have created new restrictions on local government finances, created tighter limits on state government revenues, and ended the pension system for the state legislature.